

Audited Financial Statements
and Other Financial Information

MARQUETTE BOARD OF LIGHT AND POWER
Marquette, Michigan

June 30, 2008

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and Other Financial Information

MARQUETTE BOARD OF LIGHT AND POWER

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Management's Discussion and Analysis

This annual report consists of a series of financial statements, notes to the financial statements, and other financial information. Following is a brief description of each statement and the notes.

The balance sheet presents the financial position of the Marquette Board of Light and Power (MBLP) on a full accrual, historical cost basis. This statement provides information about the nature and amount of resources and obligations for the years ended June 30, 2008, and June 30, 2007.

The statement of revenues, expenses, and changes in net assets provides the reader with the revenues and expenses by major category for the current fiscal year and the prior fiscal year giving the opportunity for a direct comparison of these items for the past two fiscal years. Increases and decreases in the individual line items on this statement can be analyzed and evaluated. This statement also indicates the change in net assets.

The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, capital and related financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the MBLP's significant accounting policies, account balances and activities, material risks, obligations, commitments, contingencies, and any subsequent events.

After the financial statements and notes to financial statements, the MBLP presents other financial information. This information includes a schedule of operating expenses, schedule of utility plant in service, comparative operating statistics, and comparative financial and statistical information.

The following table summarizes the financial condition and operations for the MBLP:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 17,810,540	\$ 15,392,948	\$ 2,417,592	15.71%
Restricted assets	2,764,614	5,102,483	(2,337,869)	-45.82%
Capital assets	39,243,131	38,357,675	885,456	2.31%
Total assets	<u>59,818,285</u>	<u>58,853,106</u>	<u>965,179</u>	<u>1.64%</u>
Long-term liabilities	1,257,348	3,967,011	(2,709,663)	-68.30%
Other liabilities	8,399,474	6,505,777	1,893,697	29.11%
Total liabilities	<u>9,656,822</u>	<u>10,472,788</u>	<u>(815,966)</u>	<u>-7.79%</u>
Net assets:				
Invested in plant, net of related debt	39,243,131	35,677,925	3,565,206	9.99%
Restricted	2,211,314	2,210,963	351	0.02%
Unrestricted	<u>8,707,018</u>	<u>10,491,430</u>	<u>(1,784,412)</u>	<u>-17.01%</u>
Total net assets	<u>\$ 50,161,463</u>	<u>\$ 48,380,318</u>	<u>\$ 1,781,145</u>	<u>3.68%</u>

Management's Discussion and Analysis--Continued

	June 30, 2008	June 30, 2007	Dollar Change	Percent Change
Revenues:				
Electric revenues...	\$ 25,279,284	\$ 23,009,316	\$ 2,269,968	9.87%
Sales to WE Energies	304,870	229,068	75,802	33.09%
Interest earnings	774,988	848,865	(73,877)	-8.70%
Other	748,253	704,193	44,060	6.26%
Total revenues	27,107,395	24,791,442	2,315,953	9.34%
Expenses:				
Electric expenses	25,481,830	24,922,131	559,699	2.25%
Interest and debt expense	147,241	248,740	(101,499)	-40.81%
Other	30,566	36,210	(5,644)	-15.59%
Total expenses	25,659,637	25,207,081	452,556	1.80%
Net income (loss)	1,447,758	(415,639)	1,863,397	-448.32%
Extraordinary item		1,725,000	1,725,000	
Capital contributions from customers	333,387	210,438	122,949	58.43%
Change in net assets	\$ 1,781,145	\$ 1,519,799	\$ 261,346	17.20%

Current and other assets has increased by 15.71%. This is primarily due to an increase in coal inventory and an increase in investments to pay for coal invoices. Restricted assets has decreased by 45.82%. This is due to a decrease in the Bond and Interest Redemption Fund. Long-term debt outstanding has decreased by 68.30%. This is due to the annual bond and interest payment that was made on July 1, 2008. All long-term debt outstanding has been paid as of July 1, 2008. Other liabilities has increased by 29.11%. This is due to the timing of and the payment for coal shipments. Net assets invested in plant, net of related debt has increased 9.99% due to the annual bond and interest payment and capital additions.

Net assets have increased by approximately \$1,780,000 during the fiscal year ended June 30, 2008, indicating that the Marquette Board of Light and Power's financial position has improved.

Electric revenues and electric expenses have risen in part due to the cost of coal and purchased power. These higher costs are reflected in customer revenues through the fuel adjustment clause.

There were no significant variations between the original and final budgets. Notable variations of actual amounts to budgeted amounts were: lower operation and maintenance expenses on Unit #2 due to lower than budgeted kWh production and higher than budgeted purchased power expense due to greater kWh purchases.



MAKELA, TOUTANT, HILL & NARDI, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Marquette, Michigan 49855

Members
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Michigan Association of CPA's

REPORT OF INDEPENDENT AUDITORS

The Honorable Chairman and Members
Marquette Board of Light and Power
Marquette, Michigan

We have audited the accompanying financial statements of the Marquette Board of Light and Power (Board) as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Marquette Board of Light & Power's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marquette Board of Light and Power as of June 30, 2008 and 2007, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information presented in Management's Discussion and Analysis on pages one and two is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Makela, Toutant, Hill & Nardi, P.C.

October 7, 2008



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Our goal is to help you meet yours!

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BALANCE SHEETS

MARQUETTE BOARD OF LIGHT AND POWER

	June 30	
	2008	2007
ASSETS		
UTILITY PLANT		
Electric utility plant in service--Notes A and C	\$ 121,703,038	\$ 117,733,051
Less allowances for depreciation and amortization	82,459,907	79,375,376
NET UTILITY PLANT	39,243,131	38,357,675
RESTRICTED ASSETS--Notes B and D:		
Bond and interest redemption fund	553,300	2,891,520
Bond reserve fund	2,198,000	2,198,000
Pinehill landfill escrow fund	13,314	12,963
TOTAL RESTRICTED ASSETS	2,764,614	5,102,483
CURRENT ASSETS		
Cash and cash equivalents--operation and maintenance fund--Note A	5,188,451	3,110,749
Accounts receivable, less allowance for losses in collection (2008--\$180,377; 2007--\$164,776)	1,038,496	1,285,340
Other receivable		1,725,000
Inventories		
Coal	3,223,480	2,211,631
Diesel fuel	447,667	551,456
Materials and supplies	467,209	493,076
Prepaid expenses	172,067	97,224
TOTAL CURRENT ASSETS	10,537,370	9,474,476
INTERNALLY DESIGNATED ASSETS		
Customer electric rate stabilization fund	1,873,970	1,792,743
Turbine and major generating equipment overhaul fund	739,820	739,820
Replacement-risk retention fund	1,064,537	1,012,564
Investment--RHFV	391,619	200,186
Investment--Ren/Energy efficiency fund	970,330	
Improvement fund	45,638	58,300
TOTAL INTERNALLY DESIGNATED ASSETS	5,085,914	3,803,613
OTHER ASSETS		
Investment in UPPPA	2,187,256	2,090,698
Unamortized bond issue expenses		24,161
TOTAL OTHER ASSETS	2,187,256	2,114,859
TOTAL ASSETS	\$ 59,818,285	\$ 58,853,106

	June 30	
	2008	2007
NET ASSETS		
Invested in utility plant, net of related debt	\$ 39,243,131	\$ 35,677,925
Restricted	2,211,314	2,210,963
Unrestricted	8,707,018	10,491,430
TOTAL NET ASSETS	50,161,463	48,380,318
LONG-TERM LIABILITIES		
Revenue bonds less current maturities		2,679,750
Reserve for turbine and major generating equipment overhaul	739,819	739,820
Post-closure costs--landfill	517,529	547,441
TOTAL LONG-TERM LIABILITIES	1,257,348	3,967,011
CURRENT LIABILITIES (payable from restricted assets)		
Current maturities on revenue bonds	2,700,000	2,790,000
Revenue bond accrued interest payable	51,300	101,520
TOTAL CURRENT LIABILITIES--RESTRICTED ASSETS	2,751,300	2,891,520
CURRENT LIABILITIES (payable from current assets)		
Accounts payable	3,635,493	1,152,550
Employee compensation and related liabilities	131,095	125,799
Accrued sick and vacation pay	870,826	883,933
Customer deposits, including accrued interest (2008--\$11,536; 2007--\$21,394)	970,760	1,411,975
Post-closure costs--landfill	40,000	40,000
TOTAL CURRENT LIABILITIES	5,648,174	3,614,257
TOTAL LIABILITIES AND NET ASSETS	\$ 59,818,285	\$ 58,853,106

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2008	2007
OPERATING REVENUES		
Electricity sales:		
Urban	\$ 14,417,187	\$ 13,200,713
Rural	8,636,042	7,810,320
Sales to Alger-Delta Co-op	1,112,352	968,308
Sales to Wisconsin Electric Power Company	304,870	229,068
Street lighting	349,712	327,198
Other municipal departments	763,991	702,777
Rent and other	717,515	673,594
TOTAL OPERATING REVENUES	26,301,669	23,911,978
OPERATING EXPENSES		
Production	11,674,429	11,454,801
Purchased power	2,725,931	2,739,263
Distribution and transmission	1,259,918	1,053,395
Customer accounting	594,840	555,617
Administrative and general	4,739,749	4,610,115
Provisions for depreciation and amortization of landfill site, excluding amounts charged to other operating expenses (2008--\$77,498; 2007--\$102,006)	3,050,572	3,095,911
Charges from municipality in lieu of property taxes--City of Marquette	1,436,391	1,413,029
TOTAL OPERATING EXPENSES	25,481,830	24,922,131
OPERATING INCOME (LOSS)	819,839	(1,010,153)
OTHER INCOME (DEDUCTIONS)		
Investment income	774,988	848,865
Interest on refunding bonds	(102,600)	(203,040)
Delayed payment fees	30,738	30,599
Amortization of bond issuance expense	(44,641)	(45,700)
Other interest expense	(30,566)	(36,210)
TOTAL OTHER INCOME (DEDUCTIONS)	627,919	594,514
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	1,447,758	(415,639)
EXTRAORDINARY ITEM (See Note O)		1,725,000
NET INCOME	1,447,758	1,309,361
CAPITAL CONTRIBUTIONS FROM CUSTOMERS	333,387	210,438
CHANGE IN NET ASSETS	1,781,145	1,519,799
NET ASSETS AT BEGINNING OF YEAR	48,380,318	46,860,519
NET ASSETS AT END OF YEAR	\$ 50,161,463	\$ 48,380,318

See notes to financial statements.

STATEMENTS OF CASH FLOWS

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2008	2007
CASH FLOWS FROM (USED BY) OPERATING ACTIVITIES		
Cash received from customers	\$ 26,083,470	\$ 23,911,416
Other cash received	2,492,837	930,825
Cash paid to suppliers and employees	(20,885,345)	(21,760,064)
Cash paid for interest	(152,820)	(247,507)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,538,142	2,834,670
CASH FLOWS FROM (USED BY) INVESTING ACTIVITIES		
Capital expenditures, net	(3,969,988)	(2,572,007)
Contributions from customers	333,387	210,438
Proceeds from maturities and sales of investment securities	5,105,762	4,974,616
Other		36,871
Purchases of investment securities	(4,139,601)	(2,923,845)
NET CASH FLOWS USED BY INVESTING ACTIVITIES	(2,670,440)	(273,927)
CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES		
Principal payments on revenue bonds	(2,790,000)	(2,695,000)
NET CASH FLOWS USED BY NONCAPITAL FINANCING ACTIVITIES	(2,790,000)	(2,695,000)
NET INCREASE (DECREASE) IN OPERATION AND MAINTENANCE FUND CASH AND CASH EQUIVALENTS	2,077,702	(134,257)
OPERATION AND MAINTENANCE FUND CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,110,749	3,245,006
OPERATION AND MAINTENANCE FUND CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,188,451	\$ 3,110,749
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 1,447,758	\$ 1,309,361
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	3,084,532	3,197,917
Bad debt expense	24,000	24,000
Amortization of bond issuance expense and bond discounts	44,411	45,700
(Increase) Decrease in:		
Accounts receivable	222,844	(61,389)
Other receivable	1,725,000	(1,725,000)
Inventory	(882,193)	(244,788)
Prepaid expenses	(74,843)	(32,825)
Accrued interest receivable	(7,151)	81,960
Increase (Decrease) in:		
Landfill site post-closure care cost liability	(29,912)	(25,477)
Accounts payable	2,482,942	421,658
Employee compensation and related liabilities	5,296	9,351
Accrued sick and vacation pay	(13,107)	69,543
Customer deposits, including accrued interest	(441,215)	66,438
Reserve for turbine overhaul and generating equipment		(257,312)
Revenue bond interest payable	(50,220)	(44,467)
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 7,538,142	\$ 2,834,670

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

MARQUETTE BOARD OF LIGHT AND POWER

June 30, 2008

NOTE A—STATEMENT OF ACCOUNTING POLICIES

The accounting policies followed by the Board and the methods of applying those policies, which materially affect the determination of the financial position, other changes in equity, and results of operations are summarized below.

Description of Reporting Entity: The Board was formed by a revision of the Charter of the City of Marquette, Michigan, in 1964 to operate the city's electric utility. The Board consists of five members, elected by the voters of the City of Marquette, each serving three-year terms. The Board appoints the director. The Board is owned by the City of Marquette, Michigan. The Board provides electrical service to the residents of the City of Marquette, as well as non-residents within an area of approximately 140 square miles outside the city limits. The Board, subject to confirmation by the Marquette City Commission, sets rates for light and power. The accompanying financial statements include only the Board and no other governmental agencies or departments of the City of Marquette.

The Board is accounted for as an Enterprise Fund. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation and amortization) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting: The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Revenues and expenses are recognized on the accrual basis in accordance with accounting principles generally accepted in the United States of America and with the requirements of Act 2 of the Public Acts of 1968, which is the Uniform Accounting Act of the State of Michigan. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Financial Reporting: The Governmental Accounting Standards Board has issued Statement of Accounting Standards Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments (SGAS 34). SGAS 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets, and a statement of cash flows. It requires the classification of net assets into the three components of: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE A--STATEMENT OF ACCOUNTING POLICIES--Continued

Invested in capital assets, net of related debt: This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted: This component of net assets consists of assets with constraints placed on their use through creditors such as, through debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Utility Plant: Utility plant acquired prior to 1940 is stated on the basis of values determined by independent appraisers as of that date. Subsequent additions are stated at cost. Costs of the utility plant related to providing service to additional customers are capitalized and, in some cases, a related fee is charged to customers and recorded as contributions from customers.

Additions, improvements, and other capital outlay that significantly extends the useful life of an asset are capitalized. Capitalization thresholds vary by asset category and by type of expenditure.

Depreciation and amortization are provided for on the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Life</u>
Hydro license	30 years
Structures and improvements	33-50 years
Equipment	5-33 years

Gains or losses on normal disposals are not included in net income, but are recorded as adjustments of the allowances for depreciation. Gains or losses on extraordinary retirements or unusual disposals are recorded in net income in their year of occurrence.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE A--STATEMENT OF ACCOUNTING POLICIES--Continued

Inventories: Inventories of fuel, material, and supplies are valued at cost (not in excess of market) determined on the moving-average method.

Accrued Sick Leave: The Board has a policy of allowing employees to accumulate sick leave benefits. At retirement, certain terminations of employment, or employees with ten years or more of service are paid for one-half of the accumulated days at their current rate of pay. Such benefits are recorded when earned.

Unbilled Revenue: The Board recognizes revenues on the basis of monthly cycle billings to customers. Accordingly, unbilled revenue from billing date to June 30 has not been recorded. The cost of service rendered is recognized when incurred.

Cash and Cash Equivalents: The Board considers all demand deposits, time deposits, money market mutual funds and highly liquid debt instruments, purchased with an original maturity of three months or less, to be cash equivalents. Cash and cash equivalents are reported at the carrying amount which approximates fair value.

Investments: The Board reports investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices. Exceptions to this policy include the Board's investments in time deposits which are carried at cost and the investment in Upper Peninsula Public Power Agency which is carried at cost because there is no quoted market value for the investment.

State statutes authorize the Board to invest in bonds and other direct obligations of the U.S. government or its agencies; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Board is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements; bankers' acceptances of U.S. banks; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investments outlined above.

Statement of Cash Flows: The Board prepares the statement of cash flows to present the change in the operation and maintenance fund cash and cash equivalents account balances.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE B--RESTRICTED AND DESIGNATED ASSETS

Rates: The Board will charge and collect rates, with the confirmation of the city commission, necessary to provide net revenues, as defined in the bond agreement, sufficient to cover annual debt service not less than 1.25 times.

Operation and Maintenance Fund: Transfers will be made from the receiving fund in amounts necessary to pay the next month's estimated operating expenses. This fund also includes assets reserved for customer deposits and short-term investments for payment of coal invoices.

Use of Estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires the Board's management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

The major funds created by provisions of the ordinances authorizing the issuance of revenue bonds and by Board designation are as follows:

Bond and Interest Redemption Fund: Transfers will be made from the receiving fund in amounts sufficient to pay bond and interest maturities.

Bond Reserve Fund: Transfers will be made to the bond reserve fund in an amount equal to ten percent of the 2001A revenue bonds original issuance amount.

Replacement-Risk Retention Fund: Transfers will be made to the fund, as the Board determines necessary, to finance major distribution repairs and replacements and provide for potential claims not covered by existing insurance policies. Transfers to this fund are subordinate to payments in lieu of taxes.

Improvement Fund: Transfers will be made to the improvement fund, as the Board deems necessary for improvements, enlargements, and extensions of the system. Transfers to this fund are subordinate to transfers to the replacement-risk retention fund.

Pinehill Landfill Escrow Fund: The Board has established an escrow fund (based on tonnage) for the future closure of the landfill due to a state regulation.

Turbine and Major Generating Equipment Overhaul Fund: The Board has established a turbine and major generating equipment overhaul fund for future turbine and major generating equipment overhauls.

Customer Electric Rate Stabilization Reserve: This fund consists of funds reserved for plant expansion, retirement of debt, reduction or elimination of adverse fuel adjustments, and/or to avert a rate increase.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE B--RESTRICTED AND DESIGNATED ASSETS--Continued

Retiree Health Funding Vehicle Fund: The Board has established a Retiree Health Funding Vehicle Fund to accumulate money for post employment benefits (primarily health care) to meet future liabilities.

Renewable/Energy Efficiency Fund: The Board has established a Renewable/Energy Efficiency Fund. This fund will be utilized to promote renewable and efficiency programs at the Board. It will also be used to fund programs to satisfy portfolio standards and other efficiency and/or Hydro projects.

NOTE C--UTILITY PLANT

A summary of utility plant is as follows:

	June 30	
	2008	2007
Land and land rights	\$ 1,003,073	\$ 1,003,073
Landfill site	120,000	120,000
Hydro license	487,655	468,663
Structures and improvements	10,807,592	10,702,628
Equipment	109,284,718	105,438,687
	<u>121,703,038</u>	<u>117,733,051</u>
Accumulated depreciation	<u>(82,459,907)</u>	<u>(79,375,376)</u>
	<u>\$ 39,243,131</u>	<u>\$ 38,357,675</u>

A summary of utility plant activity for the year ended June 30, 2008, is as follows:

	Balance at Beginning of Year	Additions	Retirements	Transfers	Balance at End of Year
Hydraulic production	\$ 6,240,660	\$ 96,384			\$ 6,337,044
Internal combustion	1,477,077			\$ (274,836)	1,202,241
Turbine combustion	4,496,672	24,993		274,836	4,796,501
Steam production	66,952,925	136,432			67,089,357
Transmission	2,586,841	2,306,680			4,893,521
General plant and equipment	4,447,463	139,703	\$ (102,080)		4,485,086
Distribution	31,531,413	1,463,933	(96,058)		32,899,288
	<u>117,733,051</u>	<u>4,168,125</u>	<u>(198,138)</u>	<u>0</u>	<u>121,703,038</u>
Accumulated depreciation	<u>(79,375,376)</u>	<u>(3,128,070)</u>	<u>43,539</u>		<u>(82,459,907)</u>
	<u>\$ 38,357,675</u>	<u>\$ 1,040,055</u>	<u>\$ (154,599)</u>	<u>\$ 0</u>	<u>\$ 39,243,131</u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE D--DEPOSITS AND INVESTMENTS

The composition of restricted assets, internally designated assets, and operation and maintenance fund assets reported on the balance sheet at June 30, 2008, are as follows:

	Cash and Cash Equivalents	Accrued Interest	Total
RESTRICTED ASSETS			
Bond and interest redemption fund	\$ 553,300		\$ 553,300
Bond reserve fund	2,198,000		2,198,000
Pinehill escrow fund	13,314		13,314
	<u>2,764,614</u>	\$ 0	<u>2,764,614</u>
INTERNALLY DESIGNATED ASSETS			
Customer electric rate stabilization fund	1,830,098	43,872	1,873,970
Turbine overhaul fund	715,865	23,954	739,819
Investment--RHFV	391,619		391,619
Investment--Ren/Energy efficiency fund	970,330		970,330
Improvement fund	45,638		45,638
Replacement-risk retention fund	1,044,181	20,357	1,064,538
	<u>4,997,731</u>	<u>88,183</u>	<u>5,085,914</u>
OPERATION AND MAINTENANCE FUND	<u>5,146,164</u>	<u>42,287</u>	<u>5,188,451</u>
TOTAL	<u>\$ 12,908,509</u>	<u>\$ 130,470</u>	<u>\$ 13,038,979</u>

Cash and cash equivalents can also be summarized into the following categories:

Cash on hand	\$ 1,701
Cash in demand accounts	285,661
Cash in savings accounts	1,259,789
Time deposits	6,423,422
Money market mutual funds	<u>4,937,936</u>
TOTAL	<u>\$ 12,908,509</u>

Custodial Credit Risk

At year-end, the carrying amount of the Board's deposits with financial institutions, including time deposits approximated \$12,909,000. Approximately \$480,000 of the Board's deposits were insured by the Federal Deposit Insurance Corporation (FDIC). The remaining balance of \$12,429,000 was uninsured and uncollateralized; therefore, the Board is subject to custodian credit risk. Custodian credit risk is the risk that, in the event of a financial institution failure, the Board's deposits may not be returned to it. The Board places its deposits with high quality financial institutions. Although such deposits exceed federally insured limits, they are in the opinion of the Board subject to minimal credit risk.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE D--DEPOSITS AND INVESTMENTS--Continued

Investments

During the year ended June 30, 2004, the Board joined with six other municipal electric utilities and formed the Upper Peninsula Public Power Agency (Agency) a joint action agency created under Public Act 448 of the State of Michigan. The primary purpose of the Agency is to facilitate an ownership interest in American Transmission Company, LLC, for its members, with any investment revenues countering likely increases in wholesale transmission expenses. The Board transferred transmission assets with a net book value of \$746,390 and approximately \$902,000 in cash to the Agency in return for an approximate 68 percent ownership interest in the Agency. During the years ended June 30, 2008 and 2007, the Board made additional investments in the Agency in the amounts of \$96,558 and \$54,618, respectively. This investment is carried at cost.

NOTE E--LONG-TERM DEBT

The annual cash requirements to amortize all recorded debt outstanding, including interest payments, are as follows for each of the fiscal years ended:

Fiscal Year Ending June 30	July 1		January 1	
	Interest	Principal	Interest	Total
2009	\$ 51,300	\$ 2,700,000	\$ 0	\$ 2,751,300

The following is a summary of long-term debt transactions for the year ended June 30, 2008:

	June 30, 2007	Additions	Payments or Amortization	June 30, 2008
Revenue bonds payable	\$ 2,700,000		\$(2,700,000)	\$ 0
Less: unamortized net discount	(20,250)		20,250	0
TOTAL BONDS PAYABLE	\$ 2,679,750	\$ 0	\$(2,679,750)	\$ 0

Interest payments relating to the 2001A revenue bonds totaled \$152,820 and \$247,508 for the years ended June 30, 2008 and 2007, respectively. Other interest payments totaled \$38,250 and \$43,055 for the years ended June 30, 2008 and 2007, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE F--FUNDS AVAILABLE FOR DEBT SERVICE

Income available for debt service consists of the following:

	Year Ended June 30	
	2008	2007
Operating income (loss)	\$ 819,839	\$ (1,010,153)
Charges from municipality in lieu of property taxes	1,436,391	1,413,029
Provision for depreciation and amortization	3,128,070	3,197,917
Investment income	774,988	848,865
Delayed payment fee	30,738	30,599
	<u>30,738</u>	<u>30,599</u>
AMOUNT AVAILABLE FOR DEBT SERVICE	<u>\$ 6,190,026</u>	<u>\$ 4,480,257</u>

Debt service requirements consist of the following:

	Year Ended June 30	
	2008	2007
Principal--2001A	\$ 2,700,000	\$ 2,790,000
Interest expense--2001A	102,600	203,040
	<u>102,600</u>	<u>203,040</u>
TOTAL DEBT SERVICE	<u>\$ 2,802,600</u>	<u>\$ 2,993,040</u>
Debt service ratio	<u>2.21</u>	<u>1.50</u>

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE G--NET ASSETS

Net assets represent the difference between assets and liabilities. The following is a summary of the individual components of the Board's net assets:

	June 30	
	2008	2007
Invested in utility plant, net of related debt:		
Net utility plant	\$ 39,243,131	\$ 38,357,675
Funds restricted for debt service	2,751,300	2,891,520
Revenue bonds payable	(2,700,000)	(5,469,750)
Accrued interest on long-term debt	(51,300)	(101,520)
INVESTED IN UTILITY PLANT, NET OF DEBT	39,243,131	35,677,925
Restricted:		
Bond reserve fund	2,198,000	2,198,000
Pinehill landfill escrow	13,314	12,963
TOTAL RESTRICTED	2,211,314	2,210,963
Unrestricted:		
Contributions from customers	3,518,891	3,185,504
Unrestricted	5,188,127	7,305,926
TOTAL UNRESTRICTED	8,707,018	10,491,430
TOTAL NET ASSETS	\$ 50,161,463	\$ 48,380,318

NOTE H--DEFINED BENEFIT PENSION PLAN

The Board participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer pension plan. The plan provides retirement, disability, and death benefits to plan members and beneficiaries in accordance with state statute and Board ordinance. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for the entire MERS system. The report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

All employees' benefits, except for the executive director, vest after ten years of service. Current Board bargaining and nonbargaining active employees covered by the defined benefit plan who retire at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.25 percent of a member's five year average compensation, times the number of years service.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE H--DEFINED BENEFIT PENSION PLAN--Continued

Board employees who have retired prior to July 1, 1992, at or after the age of 60 with 10 years of credited service are entitled to an annual retirement benefit payable for life, in an amount equal to the sum of 1.2 percent times the first \$4,200 of a member's five-year final average compensation, plus 1.7 percent times the portion of final average compensation over \$4,200. Members of the management group who retire at or after the age of 60 with ten years of credited service are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.25 percent of the member's five-year final average compensation times the number of years of service credit. All Board bargaining unit employees hired on or after July 1, 1999, are entitled to an annual retirement benefit payable monthly in an amount equal to the sum of 2.0 percent of the five-year final average compensation times the number of years of service (B-2). (MERS) provides for early retirement benefits for all active employees at age 55 with 15 years of service at a reduced retirement benefit and at age 55 with 25 years of service without reduced benefits and age 50 with 25 years of service at a reduced benefit.

Current, active Board bargaining, non-bargaining, and management employees covered by the defined benefit plan hired prior to July 1, 1999, are entitled to the annual cost of living benefit upon retirement (E-2).

The System also provides death and disability benefits. The benefit provisions and all other requirements are established by state statute and Board ordinance.

Active employees with ten or more years of service, who become disabled, receive an amount equal to the same as would be received under the normal retirement requirements, except that the reduction for retirement before age 60 is not applied. If the disability is from service connected causes, the amount of retirement allowance shall be computed as if the member had acquired exactly ten years of credited service, if the actually acquired credited service is less than ten years.

If an employee dies, the beneficiary receives a retirement allowance computed in the same manner as a service retirement allowance, but reduced to reflect Option II (100 percent joint and survivor) election. An employee's surviving spouse will receive a retirement allowance equal to 85 percent of the deceased members or deceased vested former members accrued retirement allowance computed in the same manner as a service retirement allowance, based on service and final average compensation at time of death.

Plan members are required to contribute percentages ranging from 4.7 percent to 4.8 percent of their annual salary to the plan. The Board is required to contribute an actuarially-determined rate. The contribution requirements of plan members and the Board are established and may be amended by the Board and the MERS Board of Trustees, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE H--DEFINED BENEFIT PENSION PLAN--Continued

For 2008, the Board's annual pension cost was \$527,664. The Board's actual contributions for 2008 were \$508,651. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the entry age normal cost funding method. The actuarial assumptions included (a) 8.0 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 5.0 percent to 9.4 percent per year, and (c) 4.5 percent per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 4.5 percent. The actuarial value of the plan assets was determined using techniques that smooth effects of short-term volatility in the market value of investments.

<u>Fiscal Year Funding</u>	<u>Annual Pension Cost APC</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	271,728	100%	0
2005	352,968	100%	0
2006	441,780	100%	0
2007	475,320	100%	0
2008	527,664	100%	0

NOTE I--DEFINED CONTRIBUTION PENSION PLAN

The Board adopted a defined contribution pension plan effective August 1, 1998, covering all salaried employees hired on or after July 1, 1998. All union employees hired after July 1, 2006, will be enrolled in the 401(a) Money Purchase Plan (Defined Contribution Plan). The Board is required to contribute 13.0 percent and covered employees are each required to contribute 5.0 percent of annual covered payroll. Employees may voluntarily contribute up to an additional 10.0 percent of their annual salary up to the maximum allowed under the Internal Revenue Code. For the year ended June 30, 2008, contributions by the Board totaled \$177,706 and contributions by the employees totaled \$68,348. For the year ended June 30, 2007, contributions by the Board totaled \$121,650, and contributions by the employees totaled \$46,788.

NOTE J--DEFERRED COMPENSATION PLAN

The Board offers its employees two deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. One plan is administered by the International City Managers Association (ICMA) and the other plan by the Nationwide Retirement Solutions Corporation. The plans, available to all Board employees, permit an employee to defer a portion of current earnings until termination, retirement, death, or unforeseeable emergency.

The Board does not make any contributions to the plans; however, voluntary contributions made by qualified participants to the plans for the years ended June 30, 2008 and 2007, totaled \$305,528 and \$281,490, respectively.

MARQUETTE BOARD OF LIGHT AND POWER

NOTE K--OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note E, the Board provides post-employment health care benefits to eligible retirees and their dependents. The benefits are provided in accordance with a collective bargaining agreement and Board policy. Retirees must be eligible to receive immediate benefits from the MERS System to be covered; however, deferred vested retirees are ineligible for retiree medical coverage. All employees hired on or after July 1, 1995, will upon retirement, receive full Company paid health care premiums until they become eligible for reduced Social Security benefits. The Marquette Board of Light and Power will continue to pay the premiums at the existing premium rate and the retiree will pay 20 percent of the monthly premium rate during the remainder of their retirement. The annual premium rate will be based on actual premium costs provided by the carrier. Retired employees are required to be covered by existing or future federal or state programs such as Medicare when eligible. The Board funds the benefits on a pay-as-you-go basis. There are currently 90 contracts covering retirees and/or dependents receiving post-employment health care coverage paid for by the Board. For the years ended June 30, 2008 and 2007, the Board incurred premium expense of \$976,768 and \$948,633, respectively.

NOTE L--PURCHASE COMMITMENTS

The Board has a commitment to purchase a minimum of 140,000 net tons per year through 2008 of Western Coal from a supplier at a base contract price of \$21.60 (indexed quarterly) per ton at a heating value of 9,350 BTU's per pound. Of this commitment, 63,518 tons were received as of June 30, 2008, relating to the 2008 Great Lakes shipping season. The contract was extended through the end of the 2008 shipping season with a \$.50 per ton price reduction effective January 1, 2003.

NOTE M--PINEHILL LANDFILL SITE

The Board owns a Type III sanitary landfill site located in Negaunee Township, Michigan, which was used for the disposal of fly ash resulting from the burning of coal for the operation of the Shiras Steam Plant. The Board was notified by the Michigan Department of Natural Resources that the cell used at the landfill had resulted in degradations of the groundwaters located under the landfill. The Michigan Department of Environmental Quality (DEQ) approved the Board's feasibility study for the landfill. The Board subsequently submitted a Remedial Action Plan (RAP) for the site that was approved by the DEQ in February 1998. Based upon the approved RAP, the Board has recorded an estimated liability for the post-closure costs, which are expected to be limited to the annual costs relating to sampling and testing.

NOTES TO FINANCIAL STATEMENTS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

NOTE N--RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board manages these risks in several manners.

The Board maintains coverage from commercial insurance companies as well as public entity risk pools and industry mutuals for a variety of risks including general and public officials liability, property, boiler machinery, fleet, inland marine, and workmen's compensation. The Board participates in public entity risk pools with other public utilities and various municipalities for coverage. These agreements allow for the pools to make additional assessments in order to make the pools self-sustaining. The Board is unable to provide an estimate of the amounts of additional assessments, if any, which may be required to make the pools self-sustaining. Certain other risks are borne by the Board, and the Board has established a Replacement-Risk Retention Fund (see Note B).

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years. The Board estimates that any actual claims that are pending or potential future claims, if any, will not have a material adverse effect on the Board's financial position, results of operations or cash flows; therefore, the financial statements contain no provision for any such loss contingency.

NOTE O--EXTRAORDINARY ITEM

On May 15, 2003, the Marquette Board of Light and Power's hydro properties experienced a flood event caused by the failure of a dike at the Silver Lake dam. There was significant erosion along the Dead River and the earthen embankment to the south of the #3 (Tourist Park) dam abutment was washed away. Numerous board facilities were affected by the water and debris including the hydro unit #2 Hydro Plant basement, the roads to #2 Hydro Plant and Penstock, the #3 Hydro Plant and substation, the riverbanks, and other facilities. The Board filed claims against several other parties as a result of the flood event.

During the year ended June 30, 2007, the Board entered into settlement agreements with the involved parties with proceeds due to the Board of \$1,725,000. All parties in this matter have dropped their lawsuits as a result of the agreements. Accordingly, the Board recorded a receivable and the related extraordinary revenue for this amount for the fiscal year ended June 30, 2007. All monies from the settlement agreements have been received as of June 30, 2008.

OTHER FINANCIAL INFORMATION



MAKELA, TOUTANT, HILL & NARDI, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

201 West Bluff Street
Marquette, Michigan 49855

Members
American Institute of CPA's
Michigan Association of CPA's

**REPORT OF INDEPENDENT AUDITORS
ON OTHER FINANCIAL INFORMATION**

The Honorable Chairman and Members
Marquette Board of Light and Power
Marquette, Michigan

Our report on our audits of the basic financial statements of the Marquette Board of Light and Power appears on page three. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statements and schedules listed in the table of contents as other financial information are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Marquette Board of Light and Power. Such information for the six years ended June 30 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Makela, Toutant, Hill & Nardi, P.C.

October 7, 2008



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Our goal is to help you meet yours!

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OPERATING EXPENSES

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2008	2007
PRODUCTION		
Steam Power Generation:		
Operation:		
Supervision and engineering	\$ 100,708	\$ 96,062
Fuel	8,083,056	7,575,798
Steam expenses	976,830	926,136
Electric expenses	402,532	370,001
Other	303,653	271,143
	<u>9,866,779</u>	<u>9,239,140</u>
Maintenance:		
Supervision and engineering	95,720	91,187
Structures	188,030	152,885
Boiler plant	1,101,976	1,210,065
Electric plant	118,365	183,656
Other	11,387	23,553
	<u>1,515,478</u>	<u>1,661,346</u>
TOTAL STEAM POWER GENERATION	<u>11,382,257</u>	<u>10,900,486</u>
Peaking Unit:		
Operation:		
Fuel	91,507	331,049
Operation and maintenance	49,537	63,161
TOTAL PEAKING UNIT	<u>141,044</u>	<u>394,210</u>
Hydraulic:		
Operation:		
Supervision and engineering	20,502	19,528
Generation	20,175	6,583
Other	20,553	17,564
	<u>61,230</u>	<u>43,675</u>
Maintenance:		
Supervision and engineering	17,865	16,988
Structures	2,926	4,757
Reservoirs, dams, and waterways	49,540	75,026
Electric plant	19,493	19,659
Other	74	
	<u>89,898</u>	<u>116,430</u>
TOTAL HYDRAULIC	<u>151,128</u>	<u>160,105</u>
TOTAL PRODUCTION	<u>11,674,429</u>	<u>11,454,801</u>

OPERATING EXPENSES--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2008	2007
PURCHASED POWER	\$ 2,725,931	\$ 2,739,263
TOTAL PRODUCTION AND PURCHASED POWER	14,400,360	14,194,064
DISTRIBUTION AND TRANSMISSION		
Operation:		
Supervision and engineering	135,049	128,676
Lines	17,204	20,189
Street lighting and signal systems	2,644	1,902
Meters	88,336	68,708
Customer installation	61,641	63,007
Other	62,646	63,297
	<u>367,520</u>	<u>345,779</u>
Maintenance:		
Supervision and engineering	126,613	117,802
Lines, structures, and station equipment	665,466	475,409
Line transformers	6,676	10,101
Street lighting and signal systems	61,799	74,370
Meters and other	31,844	29,934
	<u>892,398</u>	<u>707,616</u>
TOTAL DISTRIBUTION AND TRANSMISSION	1,259,918	1,053,395
CUSTOMER ACCOUNTING		
Supervision	68,765	65,473
Meter reading	107,091	105,930
Billing and collection	388,310	356,698
Other	30,674	27,516
TOTAL CUSTOMER ACCOUNTING	<u>594,840</u>	<u>555,617</u>

OPERATING EXPENSES--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30	
	2008	2007
ADMINISTRATIVE AND GENERAL		
Salaries	\$ 494,793	\$ 460,783
Office supplies and expense	33,738	35,014
Professional services	76,369	193,363
Workers' compensation and insurance and direct payments	78,769	70,445
Fire, liability, and other insurance	342,200	341,811
Customer sales and safety relations	47,639	59,003
Employees' welfare and benefits:		
Social security	389,204	358,610
Medical insurance	1,681,918	1,621,279
Life insurance and long-term disability	45,127	55,034
Vacations, sick leave, and funeral leave	420,529	401,230
Retirement	686,357	567,484
Paid holidays	132,976	121,525
Longevity pay	14,093	14,029
Safety program	49,932	46,927
Maintenance	36,266	61,042
Other	209,839	202,536
TOTAL ADMINISTRATIVE AND GENERAL	4,739,749	4,610,115
PROVISION FOR DEPRECIATION		
Plant (excluding amounts charged elsewhere) (2008--\$77,498; 2007--\$102,006)	3,050,572	3,095,911
CHARGES IN LIEU OF PROPERTY TAXES PAID TO MUNICIPALITY	1,436,391	1,413,029
	<u>\$ 25,481,830</u>	<u>\$ 24,922,131</u>

UTILITY PLANT IN SERVICE

MARQUETTE BOARD OF LIGHT AND POWER

Year Ended June 30, 2008 (with comparative totals for 2007)

	ASSETS				ALLOWANCES FOR DEPRECIATION				NET VALUE June 30, 2008	NET VALUE June 30, 2007
	Balance at June 30, 2007	Additions	Retirement	Transfers	Balance at June 30, 2008	Provisions	Retirements	Balance at June 30, 2008		
HYDRAULIC PRODUCTION										
Land and land rights	\$ 88,249	\$ 18,992			\$ 88,249			\$ 88,249	\$	\$ 88,249
License	468,663				487,655			430,744		427,372
Structures and improvements	273,686	39,200			312,886			129,418		93,335
Reservoirs, dams, and waterways	4,419,250	38,192			4,457,442			2,531,395		2,573,470
Waterwheels, turbine, and generators	587,246				587,246			29,120		46,192
Roads, railways, and bridges	53,482				53,482			11,754		12,384
Accessory electrical equipment	348,859				348,859			4,627		6,331
Miscellaneous	1,225				1,225			1,225		
	6,240,660	96,384	\$ 0	\$ 0	6,337,044	118,410	\$ 0	3,111,737	3,225,307	3,247,333
INTERNAL COMBUSTION										
ENGINE PRODUCTION										
Structures and improvements	744,604				744,604			637,438		112,988
Fuel holders, producers, and accessories	207,002				207,002			94,193		112,809
Prime movers	274,836			(274,836)	0			0		274,836
Accessory electrical equipment	206,686				206,686			184,579		23,667
Miscellaneous	43,949				43,949			26,506		18,469
	1,477,077	0	0	(274,836)	1,202,241	11,866	0	946,174	256,067	542,769
TURBINE COMBUSTION										
Structures and improvements	300,285				300,285			291,570		18,715
Prime movers	183,024				437,860			230,409		(52,796)
Generators	3,476,159	24,993		274,836	3,501,152			3,378,075		213,840
Accessory electrical equipment	557,204				557,204			420,597		157,519
	4,496,672	24,993	0	274,836	4,796,501	161,257	0	4,320,651	475,850	337,278
STEAM PRODUCTION										
Land and land rights	951,797				951,797			6,954,371		951,797
Structures and improvements	8,502,020	33,909			8,535,929			1,581,558		1,779,874
Boiler plant and equipment	28,516,869	87,367			28,604,236			22,843,139		6,506,419
Turbogenerator units	11,066,382				11,066,382			9,654,572		1,719,615
Accessory electric equipment	6,304,942				6,304,942			5,177,473		1,316,179
Steam pollution control equipment	10,585,230				10,585,230			9,462,633		1,327,675
Miscellaneous power plant equipment	1,025,685	15,156			1,040,841			799,123		258,537
	66,952,925	136,432	0	0	67,089,357	1,798,482	0	54,891,311	12,198,046	13,860,096

UTILITY PLANT IN SERVICE--Continued

MARQUETTE BOARD OF LIGHT AND POWER

Year Ended June 30, 2008 (with comparative totals for 2007)

	ASSETS				ALLOWANCES FOR DEPRECIATION					NET VALUE June 30, 2008	NET VALUE June 30, 2007
	Balance at June 30, 2007	Additions	Retirement	Transfers	Balance at June 30, 2008	Balance at June 30, 2007	Provisions	Retirements	Balance at June 30, 2008		
TRANSMISSION LINE PROJECT											
Station equipment	\$ 1,816,483	\$ 2,026,697			\$ 3,843,180	\$ 913,050	\$ 51,354	\$ (65,000)	\$ 1,029,404	\$ 2,813,776	\$ 903,433
Poles and fixtures	387,412	217,561			604,973	284,735	11,860		296,595	308,378	102,677
Overhead conductors and devices	382,946	62,422			445,368	171,780	11,726		183,506	261,862	211,166
	2,586,841	2,306,680	\$ 0	\$ 0	4,893,521	1,369,565	74,940	\$ (65,000)	1,509,505	3,384,016	1,217,276
GENERAL											
Structures and improvements	740,811	31,855			772,666	616,714	6,865		623,579	149,087	124,097
Office furniture and equipment	1,021,105	34,972			1,056,077	511,288	53,992		565,280	490,797	509,817
Transportation equipment	1,529,956	63,670	102,080		1,491,546	958,542	74,342	95,260	937,624	553,922	571,414
Tools and work equipment	107,728				107,728	107,438			107,438	290	290
Laboratory equipment	108,894				108,894	98,052	1,871		99,923	8,971	10,842
Power operated equipment	547,518	3,848			547,518	547,132	386		547,518	0	386
Communication equipment	259,484	5,358			263,332	137,079	22,974		160,053	103,279	122,405
Miscellaneous equipment	131,967				137,325	49,234	23,620		72,854	64,471	82,733
	4,447,463	139,703	102,080	0	4,485,086	3,025,479	184,050	95,260	3,114,269	1,370,817	1,421,984
DISTRIBUTION											
Land and land rights	83,027				83,027					83,027	83,027
Substation equipment	3,065,614	143,983			3,209,597	1,951,483	25,034		1,976,517	1,233,080	1,114,131
Poles, towers, and fixtures	4,962,699	175,312	24,426		5,113,585	2,165,046	114,761	26,155	2,253,652	2,859,933	2,797,653
Overhead conductors and devices	7,041,490	287,327	19,462		7,309,355	3,429,677	175,785	3,218	3,602,244	3,707,111	3,611,813
Underground conduit	523,043	11,813			534,856	68,900	15,483		84,383	450,473	454,143
Underground conductors and devices	4,626,371	167,437			4,793,808	915,763	137,466	(28,985)	1,082,214	3,711,594	3,710,608
Line transformers	5,153,108	539,933	39,171		5,653,870	2,193,987	138,102		2,332,089	3,321,781	2,959,121
Services	1,946,822	70,101			2,016,923	940,305	49,232		989,537	1,027,386	1,006,517
Meters	1,330,129	18,509	12,999		1,335,639	516,921	37,386	12,999	541,308	794,331	813,208
Installation on customers' premises	22,417				22,417	22,471			22,471	(54)	(54)
Structures and improvements	141,222				141,222	99,866	4,702		104,568	36,654	41,356
Street lighting and signal systems	2,635,471	49,518			2,684,989	1,496,055	81,114	(108)	1,577,277	1,107,712	1,139,416
	31,531,413	1,463,933	96,058	0	32,899,288	13,800,474	779,065	13,279	14,566,260	18,333,028	17,730,939
	\$ 117,733,051	\$ 4,168,125	\$ 198,138	\$ 0	\$ 121,703,038	\$ 79,375,376	\$ 3,128,070	\$ 43,539	\$ 82,459,907	\$ 39,243,131	\$ 38,357,675

COMPARATIVE OPERATING STATISTICS

MARQUETTE OF BOARD OF LIGHT AND POWER

	Year Ended June 30		Megawatt Hours		Revenues/Expenses	
	2008	2007	Year Ended June 30	Year Ended June 30	Year Ended June 30	Year Ended June 30
			2008	2007	2008	2007
OPERATING REVENUES						
Electricity:						
Residential:						
Urban	\$ 4,150,981	\$ 3,878,923	49,945	49,294	\$83.11	\$78.69
Rural	4,537,200	4,141,557	53,762	52,082	84.39	79.52
Commercial:						
Urban	3,268,219	3,004,274	44,306	43,812	73.76	68.57
Rural	1,104,242	987,805	12,768	11,678	86.49	84.59
Power:						
Urban	3,251,393	2,972,300	45,346	44,621	71.70	66.61
Rural	2,637,283	2,343,759	38,882	37,987	67.83	61.70
Other public authorities:						
Urban	3,746,594	3,345,216	55,680	54,912	67.29	60.92
Rural	357,317	337,199	4,647	4,573	76.89	73.74
Sales for resale:						
Alger-Delta Cooperative	1,112,352	968,308	15,575	16,063	71.42	60.28
Wisconsin Electric						
Power Company	304,870	229,068	6,103	4,681	49.95	48.94
Street lighting:						
Urban	264,875	244,200	2,081	2,084	127.28	117.18
Rural	84,837	82,998	680	679	124.76	122.24
Other Municipal Departments	763,991	702,777	10,282	10,488	74.30	67.01
	25,584,154	23,238,384	340,057	332,954	75.23	69.79
Rent and other	717,515	673,594			2.11	2.02
	26,301,669	23,911,978			77.34	71.82
OPERATING EXPENSE	25,481,830	24,922,131			74.93	74.85
NET OPERATING INCOME (LOSS)	819,839	(1,010,153)			2.41	(3.03)
Other income	813,410	2,611,309			2.39	7.84
	1,633,249	1,601,156			4.80	4.81
Other deductions	185,491	291,795			0.55	0.88
NET INCOME	\$ 1,447,758	\$ 1,309,361			\$ 4.25	\$ 3.93

COMPARATIVE OPERATING STATISTICS--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	Megawatt Hours		Percentage	
	Year Ended June 30		Year Ended June 30	
	2008	2007	2008	2007
ELECTRICITY PRODUCED				
Delivered to customers	340,057	332,954	90.08%	89.34%
Consumed in operations	27,747	26,922	7.35%	7.22%
Unaccounted for	9,685	12,796	2.57%	3.43%
	<u>377,489</u>	<u>372,672</u>	<u>100.00%</u>	<u>100.00%</u>

COMPARATIVE FINANCIAL AND STATISTICAL INFORMATION

MARQUETTE BOARD OF LIGHT AND POWER

	Year Ended June 30					
	2008	2007	2006	2005	2004	2003
MEGAWATT HOURS						
Power use:						
Residential	103,707	101,376	99,624	95,817	96,512	97,492
Commercial	57,074	55,490	55,075	53,276	53,855	56,164
Power	84,228	82,608	81,900	76,845	76,642	74,056
Other public authorities	60,327	59,485	60,746	58,713	57,465	57,813
Alger Delta Co-op	15,575	16,063	15,934	15,517	15,735	16,197
Upper Peninsula Power Co.						
Wisconsin Electric Power Co.	6,103	4,681	9,086	19,908	29,121	43,986
Street lighting	2,761	2,763	2,741	2,620	2,566	2,548
Other municipal departments	10,282	10,488	10,240	10,108	10,543	11,224
	<u>340,057</u>	<u>332,954</u>	<u>335,346</u>	<u>332,804</u>	<u>342,439</u>	<u>359,480</u>
Gross system peak demand (MW)	64.6	64.0	65.5	63.7	60.4	62.2
Plant system capability (MW)	105.1	105.1	105.1	105.1	105.1	105.1
FINANCIAL DATA (thousands)						
Revenues:						
Urban	\$ 14,417	\$ 13,201	\$ 12,906	\$ 12,215	\$ 11,486	\$ 11,388
Rural	8,636	7,810	7,487	7,020	6,711	6,417
Street lighting	350	327	331	316	302	299
Sale for resale:						
Alger Delta Co-op	1,112	968	855	805	768	762
Upper Peninsula Power Co.						
Wisconsin Electric Power Co.	305	229	704	2,892	3,098	4,720
Other municipal departments	764	703	706	686	675	696
Other	718	674	600	647	739	589
	<u>26,302</u>	<u>23,912</u>	<u>23,589</u>	<u>24,581</u>	<u>23,779</u>	<u>24,871</u>
Expenses:						
Operating	20,995	20,413	18,720	19,959	16,765	17,438
Charges in lieu of property taxes paid to municipality	1,436	1,413	1,461	1,203	1,241	1,241
Provisions for depreciation and amortization	3,051	3,096	3,094	3,079	3,094	3,103
Interest and amortization, less other income	(628)	(594)	382	(168)	146	92
	<u>24,854</u>	<u>24,328</u>	<u>23,657</u>	<u>24,073</u>	<u>21,246</u>	<u>21,874</u>
Net income (loss) before extraordinary item	1,448	(416)	696	508	2,533	2,998
Extraordinary item		1,725				(122)
NET INCOME	<u>\$ 1,448</u>	<u>\$ 1,309</u>	<u>\$ 696</u>	<u>\$ 508</u>	<u>\$ 2,533</u>	<u>\$ 2,876</u>

COMPARATIVE FINANCIAL AND STATISTICAL INFORMATION--Continued

MARQUETTE BOARD OF LIGHT AND POWER

	2008	2007	2006	2005	2004	2003
Financial (thousands):						
Net plant in service and construction in progress	\$ 39,243	\$ 38,358	\$ 39,020	\$ 39,788	\$ 40,787	\$ 42,618
Bonds outstanding	\$ 2,700	\$ 5,470	\$ 8,144	\$ 11,929	\$ 15,605	\$ 19,187

SUPPLEMENTAL INFORMATION

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)
SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

MARQUETTE BOARD OF LIGHT AND POWER

Valuation Date December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2002	\$ 21,204,453	\$ 23,824,315	\$ 2,619,862	89%	\$ 3,577,979	73%
2003	\$ 21,931,156	\$ 26,001,957	\$ 4,070,801	84%	\$ 3,911,098	104%
2004	\$ 22,438,510	\$ 27,151,787	\$ 4,713,277	83%	\$ 3,599,278	131%
2005	\$ 22,841,639	\$ 28,767,850	\$ 5,926,211	79%	\$ 3,522,833	168%
2006	\$ 23,664,055	\$ 30,133,912	\$ 6,469,857	79%	\$ 3,467,875	187%
2007	\$ 24,434,918	\$ 31,629,590	\$ 7,194,672	77%	\$ 3,411,939	211%

Commencing with the 1993 actuarial valuation, the required contribution was determined using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0 percent per year, compounded annually, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, and (c) additional projected salary increases ranging from 0.00 percent to 4.16 percent per year, depending on age, attributable to seniority/merit. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis over a period of 27 years.